



Brief – Financial Precariousness is not a Function of Age

Submitted to the Standing Senate Committee on Social Affairs, Science and Technology

May 13, 2021

Réseau FADOQ

4545, avenue Pierre-De Coubertin
Montréal (Québec) H1V 0B2

Tel.: 514 252-3017
Toll free: 1 800 544-9058
Fax: 514 252-3154
Email: info@fadoq.ca

© Réseau FADOQ 2021

Contact: Gisèle Tassé-Goodman, president, and Danis Prud'homme, executive director

Author: Philippe Poirier-Monette, Collective Rights Advisor

Copyediting: Sophie Gagnon

Table of Contents

Presentation of the Réseau FADOQ	3
Introduction	4
Financial Insecurity Among Seniors	5
Retirement in Québec	7
Conclusion	9
Recommendations	10
Bibliography	11

Presentation of the Réseau FADOQ

The Réseau FADOQ is an association of more than 550,000 members aged 50 and over. Over 50 years ago, the primary goal of FADOQ's founder, Marie-Ange Bouchard, was to reduce seniors' isolation by providing them with diverse recreational, sports, and cultural activities.

One of our priorities is to press political leaders to maintain and enhance seniors' quality of life, today and tomorrow. In this regard, we offer our assistance and expertise to encourage different levels of government to make judicious choices that take into account Québec's demographic situation, namely, that Québec's population is aging faster than most Western societies.

To this end, Réseau FADOQ is using every occasion to raise awareness and make the voices of seniors heard, and—especially on political issues—taken into account. Although population aging is a fact, we believe that it is not useful to approach it from a pessimistic perspective.

It is essential, however, that the government seriously examine the impacts of an aging population. We at Réseau FADOQ believe that in the face of population aging, we must develop proactive and innovative solutions to move us forward as a society.

Introduction

In September 2019, in the midst of an election campaign, the Liberal Party of Canada promised a 10% increase in the amount of Old Age Security (OAS) benefits for seniors aged 75 and over. Following its re-election, Réseau FADOQ frequently reminded the Government of Canada of this commitment and recommended that the measure apply to all seniors eligible for Old Age Security pensions, starting at age 65.

It wasn't until April 2021, almost two years after the Trudeau government's promise of an upgrade, that Finance Minister Chrystia Freeland delivered on that promise. In her first budget, Chrystia Freeland proposed a \$500 payment in August to Old Age Security recipients aged 75 and over as of June 2022. In addition, the federal government plans to increase the monthly amounts over the long-term for this age group through legislation. In keeping with its election commitment, the Liberal Party of Canada wants to increase monthly Old Age Security benefits by 10% for people aged 75 and over, starting in July 2022.

Following the budget announcement, many Quebec seniors reacted to the exclusion of people aged 65 to 74, who will not be able to benefit from this increase.

In this brief, Réseau FADOQ wishes to address the federal government's proposal head on. Our organization is strongly in favour of increasing the Old Age Security pension. However, Réseau FADOQ challenges the age-based exclusion criteria.

First, we will examine the situation of the least affluent seniors in Quebec. We at Réseau FADOQ know that financial precariousness is not a function of age. It can be a reality for individuals before they turn 75.

Next, we will examine the Old Age Security pension program more broadly. The income replacement rate of this program will be discussed and compared with other OECD countries.

Finally, the Réseau formulates a series of recommendations to improve the quality of life of seniors today and in the future.

Financial Insecurity Among Seniors

The Canadian government supports seniors with the Old Age Security program. The program comprises two main components: the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS). The OAS pension is a universal financial measure available to people aged 65 and over. The maximum monthly payment from this program is \$618.45. The amount granted is regressive, i.e., it decreases once a taxpayer's net income from all sources exceeds the minimum payout threshold of \$77,580. Once a person's net income from all sources reaches \$129,260, it is no longer possible to obtain a benefit through Old Age Security.

The Guaranteed Income Supplement (GIS) is a monthly benefit paid to the poorest members of our society to help them avoid poverty. Through this program, a single, widowed or divorced pensioner can obtain a maximum monthly payment of \$923.71. The amount granted through this program is also regressive. Once a taxpayer's annual income, excluding the OAS pension, exceeds \$18,743.99, it is no longer possible to obtain an amount through the GIS. Note, however, that experienced workers can receive a full or partial earnings exemption of up to \$15,000 in annual employment and self-employment income while receiving GIS benefits.

Lifting Seniors out of Poverty

We have many different measures of poverty. In the *Poverty Reduction Act*, passed in 2019, the Canadian government opted to use the Market Basket Measure (MBM) as the official poverty line in Canada (Government of Canada, 2021). Calculated by Statistics Canada, this measure establishes the cost of a minimum subsistence basket of consumption, which meets basic needs. Although the MBM underwent a revision, formalized in 2020, that changed some elements of the reference basket, it still aims for a standard of living similar to that previously measured—in other words, modest.

For 2021, the MBM thresholds range from \$19,564 to \$21,132 for a single person, depending on where they live (IRIS, 2021). However, as of May 2021, an individual receiving strictly the Old Age Security pension plus the maximum amount from the Guaranteed Income Supplement will have an annual income of \$18,505.92.

Thus, a senior in this situation receives income below the thresholds set by the market basket measure, in other words, she or he is financially insecure. It should also be noted that some elements essential to well-being are not included in the calculation of the MBM. These include certain non-refundable health care services such as dental care, vision care and prescription drugs. Moreover, aging adults have ongoing expenses that may be higher than those of other age groups, such as the purchase of drugs and assistive equipment (walkers, hearing aids, etc.). It is obvious to us at Réseau FADOQ that the sums granted through OAS and GIS should at least cover the basic needs included in the MBM.

As a starting point, the federal government must commit to a 10% increase in Old Age Security benefits for all eligible seniors. Réseau FADOQ reacted strongly to the federal government's announcement in its last budget that it would only enhance Old Age Security for people aged 75 and over. As soon as it was announced in September 2019, our organization made elected officials aware of the need to implement an increase for all Old Age Security beneficiaries, i.e., starting at 65—to avoid creating two classes of seniors. Unfortunately, this was not the path chosen by the government, which stuck to its election promise. Nevertheless, Réseau FADOQ notes that this is discrimination based on age, when many people as young as 65 are in need.

Réseau FADOQ believes that the federal government should also increase the amount of the Guaranteed Income Supplement. During the last election campaign, we demanded that the next Canadian government increase the amount granted through the GIS by at least \$50 per month per senior. Combining these two increases, a senior receiving strictly the Old Age Security pension plus the maximum amount from the Guaranteed Income Supplement would have an annual income of

\$19,848.12. Even with these annual earnings, an individual in this situation would struggle to just barely exceed the lower range of the MBM thresholds.

Reassessing the Official Poverty Line in Canada

Réseau FADOQ suggests that the federal government consider using another low-income measure to set the official poverty line in Canada. One that merits consideration is the MRF-50. Using this measure, a household is qualified as low-income if its income is less than half of the median income of the total population, adjusted for size and family unit composition.

The MBM+7, which is based on the MBM plus 7% could be another compromise solution for the federal government. Adding an amount equal to 7% of the Market Basket Measure would enable individuals to cover non-discretionary expenses not currently included in the calculation of the MBM.

For a number of years, the Institut de recherche et d'informations socioéconomiques (IRIS) has been promoting the concept of sustainable income, based on evaluating the income that three types of households in seven Quebec communities would require to enjoy a dignified standard of living free of poverty, over and above the coverage of their basic needs as measured by the Market Basket Measure.

Hence, there are many alternatives to the MBM, and it is necessary for the federal government to be aware of the limitations of this measure for assessing the basic needs of its population.

Retirement in Québec

In Quebec, there are three levels of the retirement system: first, the federal Old Age Security program, which provides a basic income. As we have seen, this program includes a universal measure, Old Age Security, which can be accompanied by an assistance measure, the Guaranteed Income Supplement. The second level is provided by the Quebec Pension Plan, which grants a pension to workers who have contributed throughout their career. The third and final level is supplemental pension plans (SPPs), voluntary retirement savings plans (VRSPs), registered retirement savings plans (RRSPs), tax-free savings accounts (TFSA) and individual savings, among many other sources of income.

The issue of available retirement income is a concern for our organization. While there is no consensus on what wage replacement rate at retirement is considered financially secure, a rate of between 50% and 70% of salary was considered acceptable by the members of the expert committee that produced the D'Amours Report (D'Amours Report, 2013). However, "a person earning the average salary in Quebec and having only public plans to provide income will only have an income replacement rate of 41%" [*Translation*] (Observatoire de la retraite, forthcoming). Given that the average rate for OECD countries is roughly 53%, it is Réseau FADOQ's position that Canada's public pension wage replacement rate is clearly too low (OECD, 2017).

The Quebec Pension Plan provides a pension of approximately 25% of average career earnings at retirement. OAS, on the other hand, provides a fixed amount that will be of great importance to low-income earners and of little importance to pensioners with other more significant sources of income. This program replaces approximately 16% of the average wage in Quebec.

By its universal nature, the first level of the retirement system provides income to the largest proportion of seniors. Nevertheless, as we have noted, even when OAS is coupled with the maximum amount of GIS that can be provided to an individual, this social safety net is very fragile.

The D'Amours report highlighted some concerns about the first tier of the pension system. The expert panel stated that "over the next 40 years, the federal basic plan will see its role in income replacement in retirement gradually diminish as a result of the methods of indexing the Old Age Security pension and the Guaranteed Income Supplement. The Old Age Security pension and the Guaranteed Income Supplement increase each year in line with inflation, while wages generally increase at a higher rate than inflation. As a result of this gap, the Old Age Security pension and the Guaranteed Income Supplement will play an increasingly diminished role in the level of income replacement in retirement" [*Translation*] (D'Amours Report, 2013).

Given this reality, these experts predict that by 2052, if salaries increase at a rate of 1% above inflation, "the Quebec Pension Plan will still replace 25% of the salary. Yet the federal Old Age Security pension and Guaranteed Income Supplement programs will only replace 13% of the salary" (Ibid.). The amount provided to Quebec and Canadian seniors through OAS and GIS is already insufficient to meet their basic needs. It is inconceivable that the value of these benefits will decrease over time.

It is important to note that the Quebec Pension Plan has recently been enhanced. The *Act to enhance the Quebec Pension Plan and to amend various retirement-related legislative provisions* was passed in 2018. The core of the Quebec Pension Plan reform is the increase in the level of income replacement through two components of the supplementary plan, which is added to the basic plan. Up until 2065, the replacement rate will gradually increase from 25% to 33.33%, an increase of 8.33 percentage points for the first component of the supplemental plan. In addition, the level of income covered by the QPP will increase up to 114% of the maximum allowable earnings for the second component of the supplementary plan (Retraite Québec, 2020).

Unfortunately, the QPP enhancement will mainly compensate for reduced OAS income replacement and will not substantially improve things for future retirees who earn an average salary during their working life. Thus, on balance, a person who retires in 2065 with only public pensions as his or her sole

income will not see an increase in his or her standard of living. Given this situation, Réseau FADOQ recommends that the federal government review the method of indexing the Old Age Security program.

Conclusion

When appropriate, Réseau FADOQ is quick to recognize positive gestures made towards seniors. It was essential to maintain the age of eligibility for Old Age Security and the Guaranteed Income Supplement at 65. Automatic enrollment in the Guaranteed Income Supplement for those eligible for this program was another necessity. This was a key issue for Réseau FADOQ and one for which our organization worked hard to raise awareness among government officials. We also applauded the enhancement of the Guaranteed Income Supplement in 2013 and 2016, just as the increase in the earnings exemption for the Guaranteed Income Supplement in 2019 was appreciated by many experienced low-income workers. Our organization has welcomed all these gestures.

However, Réseau FADOQ is concerned about the federal government's decision to restrict the 10% increase in the Old Age Security pension to people aged 75 and over. The Liberal Party of Canada is keeping to its 2019 commitment. Nevertheless, tens of thousands of seniors between the ages of 65 and 74 have been hit hard by the measures announced in the last federal budget.

Our organization recommends that the 10% OAS increase be extended to all persons eligible for this benefit to avoid creating two classes of seniors. We at Réseau FADOQ believe that financial insecurity has no age limit. Many 65-year-olds have as much difficulty making ends meet as 75-year-olds. People receiving only the Old Age Security pension and the maximum amount from the Guaranteed Income Supplement should not be forced to live below the official poverty line in Canada.

Furthermore, it would be worthwhile for the federal government to consider the use of an alternative low income measure to determine the official poverty line in Canada, since some elements essential to well-being are not included in the MBM calculation. These include certain non-refundable health care services such as dental care, vision care and prescription drugs. In this respect, older people have living expenses that may be greater than those of other age groups.

Finally, while the federal Minister of Seniors touts the benefits of the Quebec Pension Plan reform, a change for which the Quebec government is solely responsible, it appears that the well-being of retirees will not be improved. Unfortunately, the QPP enhancement will mainly compensate for diminishing OAS income replacement and will not substantially improve things for future retirees who earn an average salary during their working life. Thus, on balance, a person who retires in 2065 with only public pensions as his or her sole income will not see an increase in his or her standard of living. Given this situation, Réseau FADOQ recommends that the federal government review the method of indexing the Old Age Security program.

Recommendations

- 1- That the sums granted through Old Age Security and the Guaranteed Income Supplement be sufficient to reach Market Basket Measure thresholds, which cover a household's basic needs.
- 2- That the 10% increase in Old Age Security benefits proposed in the last federal budget be extended to all seniors eligible for this program, starting at age 65.
- 3- That the Guaranteed Income Supplement be increased by at least \$50 per month per senior.
- 4- That the federal government consider using an alternative to the Market Basket Measure of low income to determine the official poverty line in Canada.
- 5- That the federal government revise its method of indexing the Old Age Security program.

Bibliography

Comité d'experts sur l'avenir du système de retraite québécois. (2013). "Innover pour pérenniser le système de retraite." https://www.rrq.gouv.qc.ca/SiteCollectionDocuments/www.rrq.gouv.qc/Francais/publications/rapport_comite/Rapport.pdf

Government of Canada. (2021). *Loi sur la réduction de la pauvreté*. Retrieved from <https://laws-lois.justice.gc.ca/fra/lois/P-16.81/page-1.html>. (English version: *Poverty Reduction Act*. <https://laws-lois.justice.gc.ca/eng/acts/P-16.81/page-1.html>)

Hurteau, Philippe, Vivian Labrie and Minh Nguyen. (2021). "Le revenu viable 2021: pour une sortie de pandémie sans pauvreté." Institut de recherche et d'informations socio-économiques. Retrieved from https://cdn.iris-recherche.qc.ca/uploads/publication/file/Revenu_viable_2021_WEB.pdf

OCDE. (2017). "Pensions at a Glance 2017: OECD and G20 Indicators." OECD Publishing. <http://www.oecd.org/pensions/oecd-pensions-at-a-glance-19991363.htm>

Retraite Québec. (2020) "La bonification du Régime de rentes du Québec." Retrieved from https://www.rrq.gouv.qc.ca/fr/programmes/regime_rentes/bonification/Pages/bonification-du-rrq.aspx